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SUBJECT: Greek Shippers Drowning in the Wake of Economic Pressures

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¶1. (SBU) SUMMARY. A seafaring nation for millennia, the resilience of the Greek shipping industry is being tested seriously for the first time since it rose to modern prominence in the 1960s. As the global economic crisis continues, and the demographics of international trade shift, the Greek shipping industry is straining to maintain its global status. EconOffs attended the 3rd annual Greek Shipping Summit on November 3, and the 9th annual Navigator conference on November 4, where it was clear that Greek shippers are feeling increasing pressure on multiple fronts, including: increased piracy; new environmental, safety, and labor regulations; China's expanding role in the industry; and recent changes in domestic political portfolios. How the Greek shipping industry addresses these challenges will impact the transport of U.S. exports-25 percent of which are carried by Greek-owned ships. END SUMMARY.

¶2. (SBU) Greece controls the world's largest merchant fleet in terms of dead weight tons (DWT), with 4960 vessels-33 percent of which are Greek-flagged. (Note: Greek-flagged vessels make up approximately 6 percent of the world total. End Note.) The industry employs 250,000 individuals (though few Greeks), and includes 25,000 seafarers and 1200 shipping companies. Second only to tourism, shipping contributed 18 billion Euro to the Greek economy in 2008, and shipping receipts account for approximately 6-8 percent of Greece's GDP. As a result of the recent global economic crisis, Greece's shipping income fell 31.3 percent in the first eight months of 2009, and shippers are bracing for the situation to get worse before it gets better.

Piracy's Economic Toll

¶3. (SBU) Stelios Drakakis, Head of the Marine Insurance Division of ISB Hellas, reported that piracy has cost the global shipping industry an estimated 16 billion USD. He noted that there have been 309 attacks (at least 10 of which were against Greek-owned ships) by pirates in the first nine months of 2009-more than all of ¶2008. With attacks on the rise and average ransom payments at 1 million USD, the industry is struggling to combat this financial drain on both shipping companies and government coffers alike. Egypt's Suez Canal revenues, for instance, are projected to fall from 5 billion USD in 2008 to 3.1 billion USD in 2010.

¶4. (SBU) Most Greek shippers support current International Maritime Organization (IMO) piracy guidelines, but many continue to debate best practices for mitigating the threat of piracy now and

in the future. Some in the industry are lobbying for the Gulf of Aden to be declared a "Naval War Zone" and for international forces in the Gulf to conduct operations against the pirates. This would affect any insurance clauses with "war exclusions." Currently, most general maritime insurance policies cover piracy, but individual underwriters often remove it, thereby creating the need for supplemental war risk insurance and increasing the cost to transport goods.

¶5. (SBU) Greek shippers have been open with us about the possibility of Greece signing the New York Declaration on best practices for merchant vessel self protection, but the GoG is resisting (see reftel A). Greece is, however, an active participant in the Contact Group.

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Companies Struggling with Strength of Shipyard Capacity

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¶6. (SBU) As demand for drybulk and other cargo declines alongside global GDP, the industry is facing an oversupply of shipyard capacity. With the recent decline in available credit, and most shipping companies over-leveraged, many are seeking to cancel or renegotiate the price of previously ordered ships. According to Philip Embiricos, former president of the Baltic and International Maritime Council (BIMCO), more than 50 percent of deliveries scheduled for 2010 and later are still without secured financing. Michael Bodouroglou, CEO of Paragon Shipping, stressed that 77 percent of the world order book would need to be cancelled to bring supply and demand to the ideal equilibrium (with a 10 percent difference). Shippers are concerned that even without financing, shipyards will continue to fill all outstanding orders to maintain shipyard employment. Though politicians do not agree, Embiricos argued that industry representatives should pressure governments to cut shipyard capacity.

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The Struggle to Accommodate New Regulations

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¶7. (SBU) Greek ship owners are hoping that the UN Climate Change Conference does not yield what they perceive to be extreme restrictions on their emissions. International shipping currently accounts for 2.7 percent of global CO_2 emissions, and without a change in practice, shipping CO_2 emissions will reach 7,000 million tons per year in coming years (38 percent of the global CO_2 cap according to Copenhagen plans). Implementing additional restrictions on this industry, however, will be difficult, as ship owners already consider themselves held to unfairly high emissions standards, with some arguing that EU environmental regulations and emissions standards should either be abolished or financially subsidized by the government. For the last several years, Greek shippers have looked to the United States as an ally against excessive EU environmental positions in the IMO. Fearing a shift in U.S. support, several recently traveled to Washington to take the pulse of congressional staff.

¶8. (SBU) Other new regulations affecting the industry include new tugboat safety regulations proposed by the United States for U.S. harbors, which will subject tugboats (previously uninspected) to formal safety inspection by the U.S. Coast Guard. The regulations are expected to be in place by January 2010, but will be open for

industry comment beforehand.

¶9. (SBU) The Maritime Labor Convention (MLC) of 2006 is expected to be in place by December 2011, after most European countries ratify it in 2010. Vessels over 500GT engaged in international shipping will be required to carry a Maritime Labor Certificate, which attests to the working and living conditions of the vessel and compliance with flag state laws. All flag states will have to review current national legislation to ensure MLC compliance.

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China's Position in the Changing Shipping Demographic

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¶10. (SBU) China's role in the shipping industry-direct and indirect-mirrors its rising position in the global economy. As Chinese domestic construction expands as a result of its rapidly growing and competitive economy, its demand for iron ore imports and related shipping services also is increasing. Shifting labor demographics mean that Chinese demand for imported energy and construction materials will increasingly be met by ships manned by Chinese seafarers. Greek fleets have used primarily Filipino, Chinese, Indian, and Ukrainian seafarers, but the pool of available seafarers is ageing, with a general shift away from the profession everywhere except China. Though the number of Filipino workers in the global market is steadily increasing (many going to the Middle East), the number of Filipino seafarers is also declining. As a result, China is likely to displace the Philippines as the next

largest supplier of seafarers. Greece has not been successful in attracting its own youth into the merchant marine and is contemplating how to make the sector more attractive to Greek graduates and recent immigrants to Greece who suffer from high unemployment.

¶11. (SBU) Conference participants were also seized with China's increasing role in shipbuilding. China recently surpassed South Korea as the world's largest shipbuilder, with 34.7 percent of the market. China has a comparative advantage as a result of its cheap labor and availability of land to expand shipyards, and it has gained additional market share by offering generous loan terms to foreign buyers and domestic shipbuilders. The Chinese also have started to purchase some of the shipyard overstock that Greek and other western European ship owners cannot absorb given the current lower cargo demand. These ships are purchased cheaply and immediately incorporated into the Chinese shipping fleet, according to Denis Petropolis of Braemer Seascope.

¶12. (SBU) On shore, Beijing-based China Ocean Shipping Company (COSCO) has secured a 35-year concession to manage one of two existing terminals and to rebuild a third terminal at Piraeus, Greece's largest port and the top container port in the eastern Mediterranean. This controversial 4.3 billion Euro deal between COSCO and the Piraeus Port Authority (OLP), which will expand Greece's role in Mediterranean shipping and transport, sparked a series of recent strikes by Greek dockworkers that cost businesses and the Greek government tens of millions of Euro in lost revenue (see reftel B). Despite the labor tensions, China is not backing away from the terms of the deal, and the GoG has said it will enforce its terms.

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Shipping Takes a Hit in the Reshuffle of Ministries

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¶13. (SBU) Following Greece's October 2009 elections, and the installation of a PASOK government, the Ministry of Mercantile Marine, Aegean Sea and Island Policy was split up, with commercial shipping issues now falling under the Ministry of Economy, Competitiveness, and Shipping. Industry representatives are clearly annoyed at the change, and sense that their issues might get less attention than they have been accustomed to. One of the conference speakers even argued that the industry should "revolt" against the dismantling of the Ministry of Mercantile Marine. That Minister Louka Katseli cancelled her keynote address to the Navigator conference at the last minute did not help, and was noted by one of the speakers.

¶14. (SBU) Comment: Greece's shipping industry is facing a diverse set of new challenges at a time when the global economic crisis is already dampening shipping demand. Greek shippers are confident that they will weather this storm, but their role as the industry giant could erode in the long-term as China and other new actors offer competitive alternatives and expand their presence in the sector. With 25 percent of U.S. exports being moved by Greek-owned ships, how Greek shippers address these challenges, and whether they do so successfully, will affect the nature of how U.S. goods are moved to international markets.
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